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TYPES OF SOVIET FOREIGN TRADE TRANSACTIONS

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21 November 1974

MEMORANDUM FOR: Mr. Milton Kovner
Deputy Director
Office of Soviet Union
Affairs
Department of State

SUBJECT : Types of Soviet Foreign
Trade Transactions with
Western Firms

The attached is responsive to your request concerning the types of transactions engaged in by the USSR with Western firms. If we can be of any further assistance on this subject, please let us know.

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Chief
Trade Branch
Office of Economic Research

Attachment:
As stated

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Types of Foreign Trade Transactions
Between the USSR and Western Firms

The Soviets use a variety of contractual arrangements to purchase plants, equipment, and technology from the West. A number of basic forms of transactions may be identified, although many deals are unique in some ways and do not fit neatly into a single category.

1. Sale for Cash

The bulk of Western trade transactions falls into this category: the Western firm sells its products and is paid in cash following delivery or against shipping documents. The recent sale by International Harvester of 700 tractors for \$100 million cash is an example.

2. Sale on Credit

A large part of Western exports of capital goods goes on medium-term or long-term credit. Most of the equipment provided by the West for the Kama River truck plant, for example, is being financed under such credits. Some exports are financed on short-term credit.

3. Turnkey Deals

Turnkey deals are distinguished by the wide range of services provided by the Western firm. In addition to selling equipment and technology, the Western firm (or firms) undertaking the project designs the plant, installs the equipment, trains technical personnel (and sometimes management), gets the installation operating, and often provides spare parts and service for a designated period after the plant is operating. Fiat's construction of the Tol'yatti automobile plant is the best known of Western turnkey projects in the USSR.

4. Barter

To save hard currency, the Soviets often try to get their Western supplier to accept Soviet goods as payment. The simplest such transaction is straight barter, with no funds involved. Soviet crude oil, for example, has been bartered

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for Italian pipe. A variation on this is an agreement whereby Occidental will ship superphosphates to the Soviets in exchange for equal values of urea, ammonia, and potash over a 20-year period. Switch trading sometimes is involved in barter. For example, a Western firm, in lieu of payment from the USSR, agrees to accept payment in the form of goods from a third party which has a deficit in its clearing account with the USSR; all three parties must agree in advance before a switch deal can be concluded. There are a number of variations in switch trading.

5. Compensation Transactions

The Soviets often try to arrange to export products to pay for Western equipment. Finsider of Italy recently agreed to accept deliveries of coal and iron as partial (65%) payment for 2.5 million tons of large-diameter steel pipes for Siberian oil and gas lines. Additional Western firms are often involved in receiving and marketing the Soviet commodities.

In a special type of compensation transaction, the commodity pay-back deal, the Soviets purchase Western equipment on credit and earmark for export a portion of the production of the installation built to repay the credit. In June the Soviets purchased four ammonia plants from Chemico and agreed to deliver 300 thousand tons of ammonia annually to repay the \$215 million credit. The Soviets have concluded a number of such deals with Japan and some Western European countries, and plan to conclude similar deals to enlist Western aid in development of energy and other natural resources in Siberia.

6. Licenses

The Soviets obtain licenses from the West in a variety of ways. The simplest is by direct purchase, either from the license holder or through an agent. The Soviets always insist in paying in a lump sum instead of by royalties. Licenses are also often included in plant and equipment contracts. Scientific and technological agreements with Western firms often call for an exchange of licenses. A number of US firms, including Alcoa, General Electric, and Bechtel, have such agreements in effect with the USSR.

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